

**Impacts of Debt financing decisions on Firms financial performance:  
Empirical study on listed material and consumer service companies in Sri  
Lanka**

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**ABSTRACT**

**Introduction:** The purpose of this study is to examine the impacts of debt financing decisions on firm financial performance in listed consumer service and material companies in Sri Lanka. This is done through investing and evaluating the debt financing decisions of listed consumer service and material companies in Colombo Stock Exchange.

**Design/ Methodology/Approach:** The research approach is based on empirical research, drawing from annual financial statements for the period from 2014/2015 to 2020/2021. Return on assets, Short-term debt to total assets, Long-term debt to total assets, Total debt to total assets, Firm size in material and consumer service companies are considered as variables in this study. Moreover, Panel regression models use to analyze the relationship between debt financing decisions and firm financial performance.

**Findings:** The finding revealed that there is a significant negative relationship between Long-term debt to total assets, Short-term debt to total assets and Return on assets in consumer service companies. Moreover, there is a significant positive relationship between Long-term debt to total assets and return on assets in material companies. However, Total debt to total assets are negatively and significantly impacts the Return on assets.

**Conclusion:** The results of this study suggest that the Debt financings are positively and negatively impact the Firms financial performance in the listed consumer service and material companies in Sri Lanka.

**Keywords:** *Short- term debt to total assets, Long- term debt to total assets, Total debt to total assets, Return on assets, Listed companies*